

**REPORT OF THE AUDIT OF THE
MCCREARY COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period
January 01, 2015 Through April 15, 2015**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MCCREARY COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period
January 01, 2015 Through April 15, 2015

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the McCreary County Sheriff for the period January 01, 2015 through April 15, 2015. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$666,233 for the districts for 2014 taxes, retaining commissions of \$21,837 to operate the Sheriff's office. The Sheriff distributed taxes of \$643,023 to the districts for 2014 taxes. Refunds of \$1,824 are due to the Sheriff from the taxing districts.

Report Comments:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties
2014-002 The Sheriff Should Earn And Distribute Investment Earnings

Deposits:

The Sheriff's deposits as of March 09, 2015 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$54,069

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2014 TAXES	4
NOTES TO FINANCIAL STATEMENT	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	11
COMMENTS AND RECOMMENDATIONS	15



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Douglas E. Stephens, McCreary County Judge/Executive

Honorable Randy Waters, McCreary County Sheriff

Members of the McCreary County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the McCreary County Sheriff's Settlement - 2014 Taxes for the period January 01, 2015 through April 15, 2015 - regulatory basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



To the People of Kentucky

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Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of April 15, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period January 01, 2015 through April 15, 2015 of the McCreary County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 04, 2015 on our consideration of the McCreary County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the McCreary County Sheriff's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the McCreary County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

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Honorable Randy Waters, McCreary County Sheriff

Members of the McCreary County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties

2014-002 The Sheriff Should Earn And Distribute Investment Earnings

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen

Auditor of Public Accounts

September 04, 2015

MCCREARY COUNTY
RANDY WATERS, SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period January 01, 2015 Through April 15, 2015

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 62,592	\$ 154,796	\$ 261,566	\$ 80,381
Tangible Personal Property	1,270	729	2,472	1,565
Fire Protection	101			
Franchise Taxes	107,667	157,022	275,185	
Unmined Coal - 2014 Taxes	984	2,425	4,113	1,264
Oil Property Taxes	466	658	1,948	599
Gas Property Taxes	824	1,162	3,442	1,058
Penalties	3,080	7,485	12,739	3,953
Adjusted to Sheriff's Receipt		(2)	(1)	(1)
Gross Chargeable to Sheriff	<u>176,984</u>	<u>324,275</u>	<u>561,464</u>	<u>88,819</u>
<u>Credits</u>				
Exonerations	255	628	1,065	327
Discounts	473	554	962	25
Delinquents:				
Real Estate	20,269	49,865	84,600	25,998
Tangible Personal Property	399	424	776	619
Franchise Taxes	<u>47,673</u>	<u>91,939</u>	<u>158,458</u>	
Total Credits	<u>69,069</u>	<u>143,410</u>	<u>245,861</u>	<u>26,969</u>
Taxes Collected	107,915	180,865	315,603	61,850
Less: Commissions *	<u>4,586</u>	<u>5,154</u>	<u>9,468</u>	<u>2,629</u>
Taxes Due	103,329	175,711	306,135	59,221
Taxes Paid	103,422	175,323	305,517	58,761
Refunds (Current and Prior Year)	<u>358</u>	<u>880</u>	<u>1,499</u>	<u>460</u>
(Refunds Due Sheriff)				
as of Completion of Audit	<u>\$ (451)</u>	<u>\$ (492)</u>	<u>\$ (881)</u>	<u>\$ 0</u>

**

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
RANDY WATERS, SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES
For The Period January 01, 2015 Through April 15, 2015
(Continued)

* Commissions:

4.25% on	\$	272,696
3% on	\$	315,603
1% on	\$	77,935

** Special Taxing Districts:

Library District	\$	(178)
Health District		(87)
South Fire		<u>(227)</u>
(Refunds Due Sheriff)	\$	<u><u>(492)</u></u>

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The McCreary County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the Sheriff did not have a written agreement with the bank.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2015
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The McCreary County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On March 09, 2015, the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$54,069

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 01, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 05, 2015 through April 15, 2015.

B. Unmined Coal Taxes

The unmined coal tax assessments were levied as of January 01, 2014. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 20, 2015 through April 15, 2015.

C. Gas and Oil Property Taxes

The gas and oil property tax assessments were levied as of January 01, 2014. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 05, 2015 through April 15, 2015.

Note 4. Interest Income

The McCreary County Sheriff earned \$0 as interest income on 2014 taxes.

Note 5. Sheriff's 10% Add-On Fee

The McCreary County Sheriff collected \$22,600 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2015
(Continued)

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The former Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The former Sheriff transferred the escrowed amount to the incoming Sheriff. The escrowed amount was as follows:

2012	\$349
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KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Douglas E. Stephens, McCreary County Judge/Executive
Honorable Randy Waters, McCreary County Sheriff
Members of the McCreary County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the McCreary County Sheriff's Settlement - 2014 Taxes for the period January 01, 2015 through April 15, 2015 - regulatory basis and the related notes to the financial statement and have issued our report thereon dated September 04, 2015. The County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the McCreary County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the McCreary County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the McCreary County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2014-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCreary County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2014-002.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

September 04, 2015

COMMENTS AND RECOMMENDATIONS

MCCREARY COUNTY
RANDY WATERS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 01, 2015 Through April 15, 2015

INTERNAL CONTROL – MATERIAL WEAKNESS:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's bookkeeper opens incoming mail, collects tax payments, and prepares deposits, daily tax collection journals, monthly tax reports, and all disbursements.

A limited budget places restrictions on the number of employees the Sheriff could hire. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties. Lack of oversight could result in the misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts, which could occur but go undetected.

A segregation of duties over accounting functions or the implementation of compensating controls is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The Sheriff should separate the duties involving the opening of mail, collecting and depositing of cash, and preparing the monthly tax reports. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could provide this oversight. This oversight should include the Sheriff, or a designee, reviewing daily collections reports and comparing it to the daily deposit. It should also include reviewing monthly tax reports and comparing them to the monthly bank reconciliations and tax distributions. Documentation, such as the Sheriff or designee's signature, should be provided on those items that have been reviewed.

Sheriff's Response: No response.

STATE LAWS AND REGULATIONS:

2014-002 The Sheriff Should Earn And Distribute Investment Earnings

The Sheriff's Office did not pay interest to the Sheriff's Fee Account or the school district. This issue was due to the fact that the Sheriff took office in January 2015 and was unaware that the tax account could be interest bearing and the interest received could be divided between the Sheriff's Office and the school district based on collections. The lack of interest received on the tax account decreased the funds the Sheriff had to run the office and put him in noncompliance with KRS 134.140.

KRS 134.140 allows the Sheriff's Office to invest tax dollars in interest bearing accounts, which would provide the investment income beneficial to the office.

We recommend the Sheriff deposit all future tax collections in an interest bearing account and distribute those earnings in accordance with KRS 134.140.

Sheriff's Response: No response.

